

# TEACHERS' RETIREMENT BOARD

## INVESTMENT COMMITTEE

SUBJECT: Report of the Chief Investment Officer

ITEM NUMBER: 14

ATTACHMENTS: 5

ACTION: \_\_\_\_\_

DATE OF MEETING: October 2, 2002

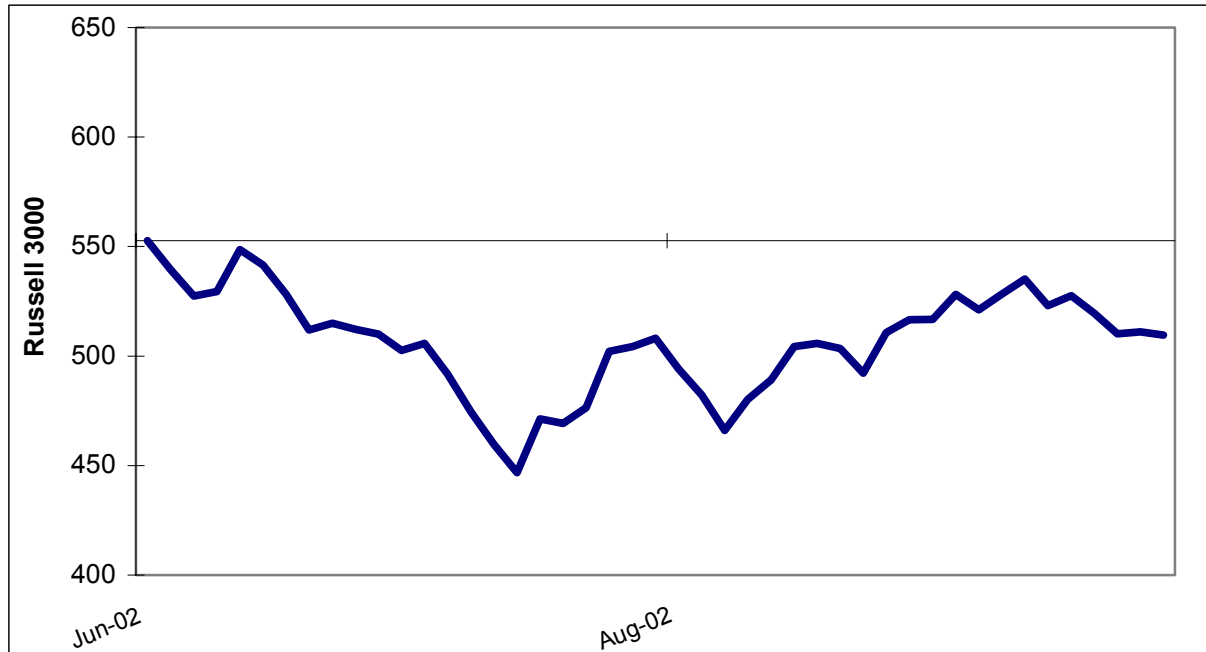
INFORMATION: X

PRESENTER: Christopher J. Ailman

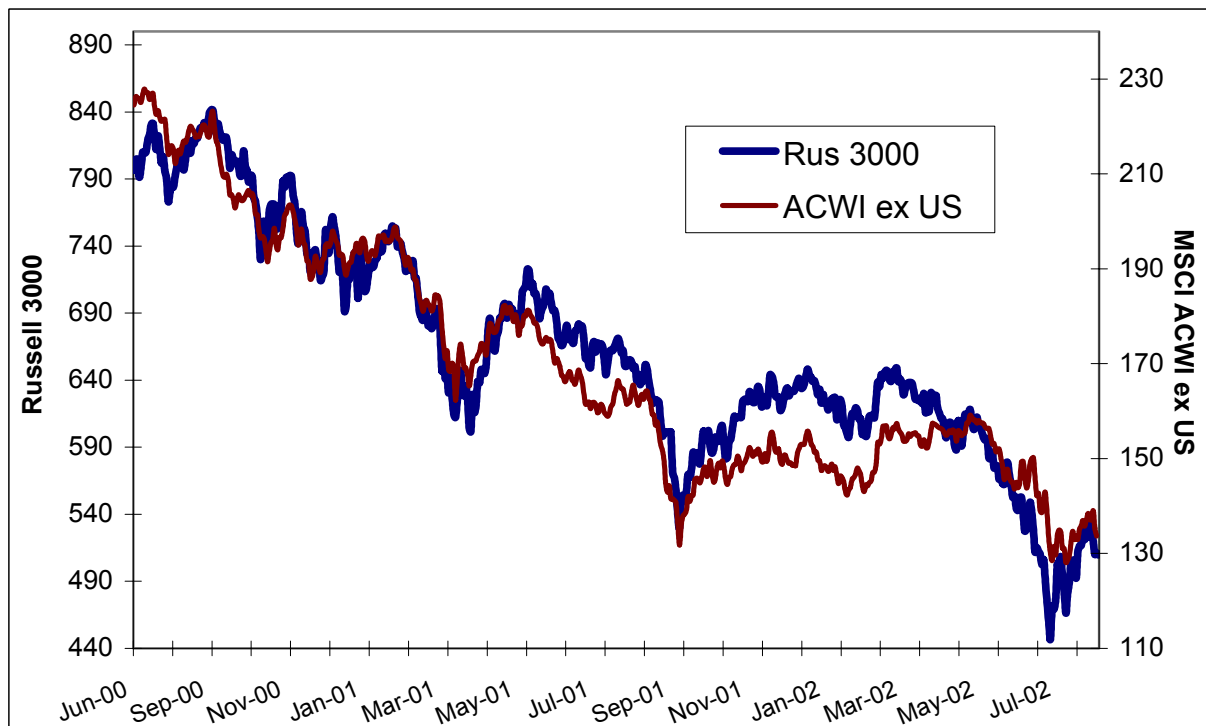
Attached are the monthly reports for the period ending August 31, 2002. Listed below is a brief summary of the developments that have occurred in the financial markets since the start of the fiscal year to the most recent month end. They serve as a backdrop for the results listed in the report. The second page provides a daily graph of the U.S and Non-U.S. equity markets. The CIO will provide a further verbal update at the meeting.

	June 30, 2002	August 30, 2002	Direction
Interest rates:			
Federal Funds	2.00%	1.75%	↓ Down 25 BP
10-year U.S. Treasury Note yield	4.80%	4.14%	↓ Down 66 BP
30-year U.S. Treasury Bond yield	5.50%	4.93%	↓ Down 57 BP
U.S. Equity market:			
Russell 3000 Index	552.65	509.65	↓ Down 43.00
S&P 500 Index	989.82	916.07	↓ Down 73.75
NASDAQ Index	1463.21	1314.85	↓ Down 148.36
Non-U.S. Equity market:			
MSCI ACWI free (ex. U.S.)	149.24	134.22	↓ Down 15.02
MSCI EAFE	1123.00	1006.55	↓ Down 116.45
MSCI Emerging Markets	319.75	298.89	↓ Down 20.86
Currencies:			
Euro in U.S.\$	.99	.98	↕ Trading range
Yen per U.S. \$	119.59	118.46	↕ Trading range
British Pound in U.S.\$	1.48	1.49	↕ Trading range
Commodities:			
Crude Oil per barrel	\$26.86	\$28.98	↑ Up \$2.12
Gold	\$318.50	\$312.80	↓ Down \$5.70
Mega Watt Hour (CA-OR on-peak)	\$23.38	\$28.00	↑ Up \$4.62

The chart below displays the daily price movement of the U.S. equity market, as measured by the Russell 3000 index, for the current Fiscal-Year 2002-2003.



This chart provides a comparison of the daily U.S. and Non-U.S. equity market price change since June 30, 2000.





# CalSTRS INVESTMENT COMMITTEE

## Chief Investment Officer Report

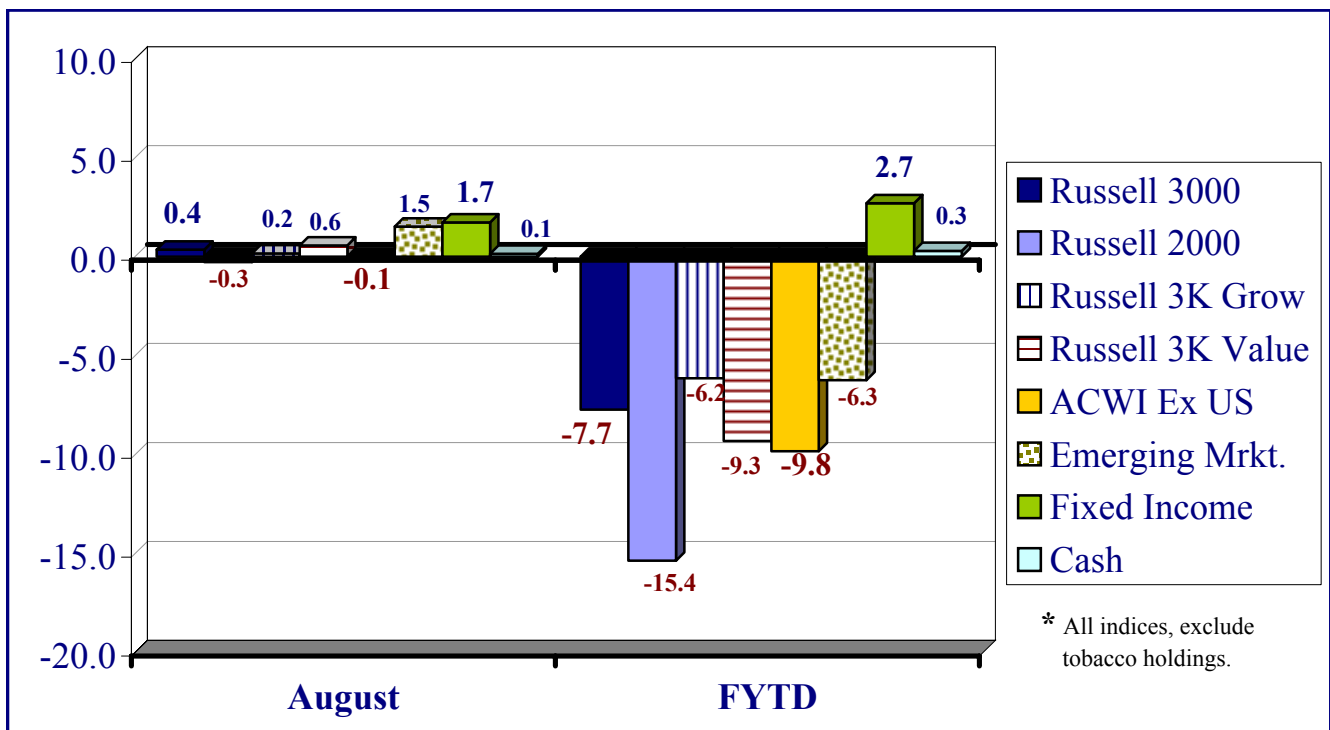
### Capital Market Environment

#### August 31, 2002

#### Russell 3000 January 1, 1999 - September 13, 2002 (Weekly Price)



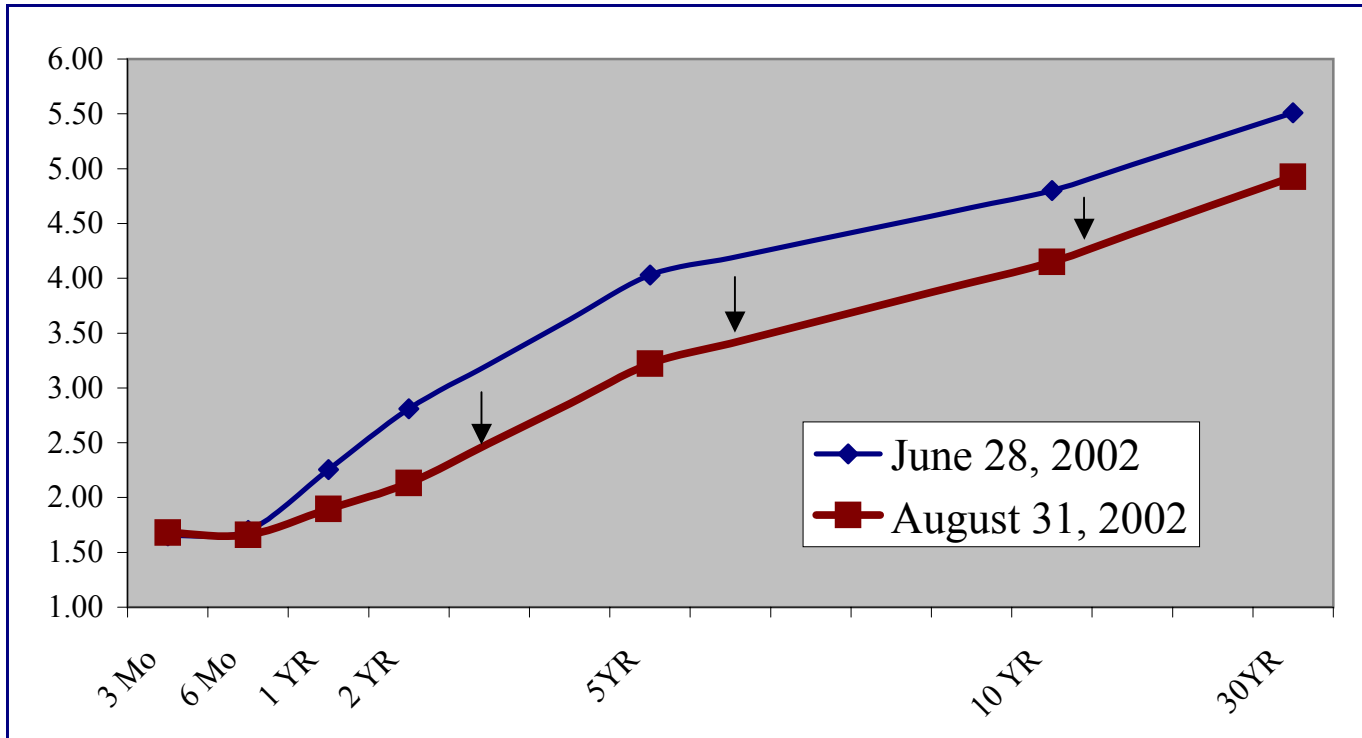
#### Capital Market Returns - Month of August and Fiscal Year to date



## Capital Markets Data

### U.S. Treasury Yield Curve

Fiscal Year 2002 - 2003

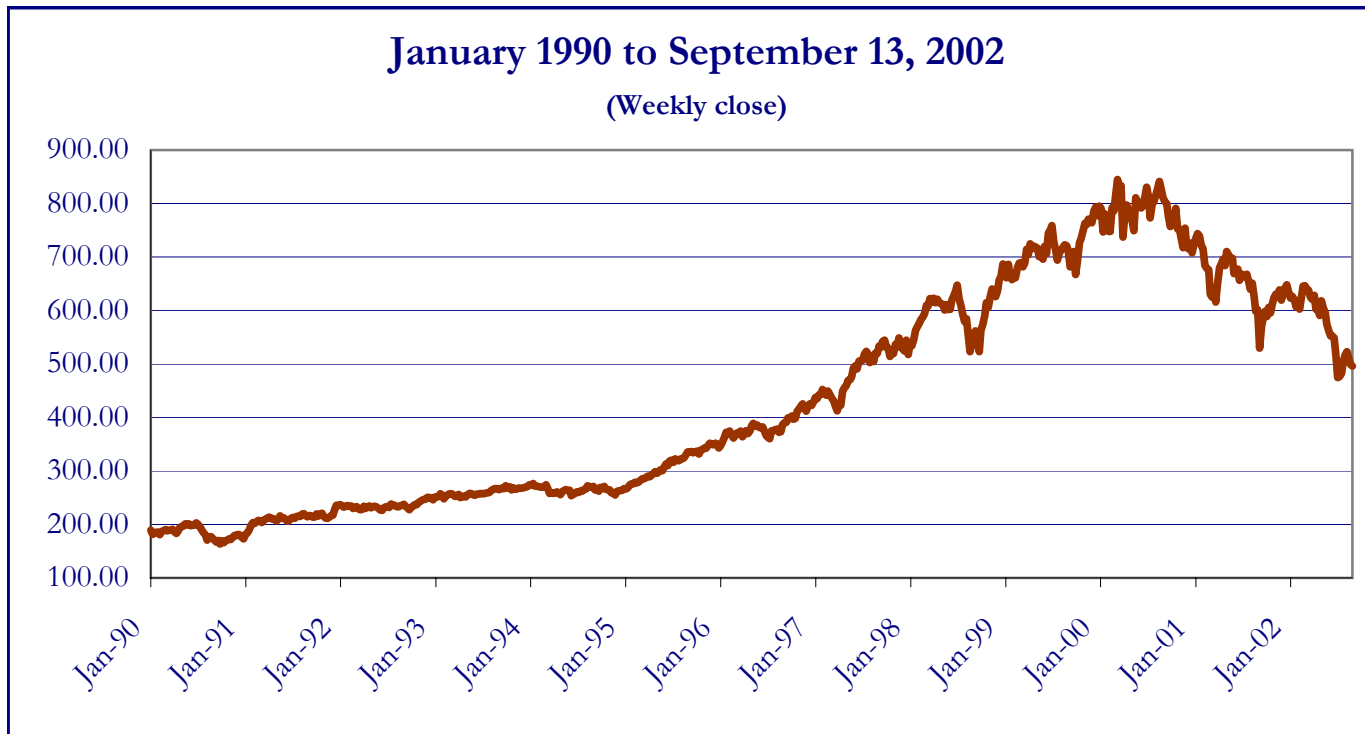


### Russell 3000 Weekly close from January 1995 to September 13, 2002

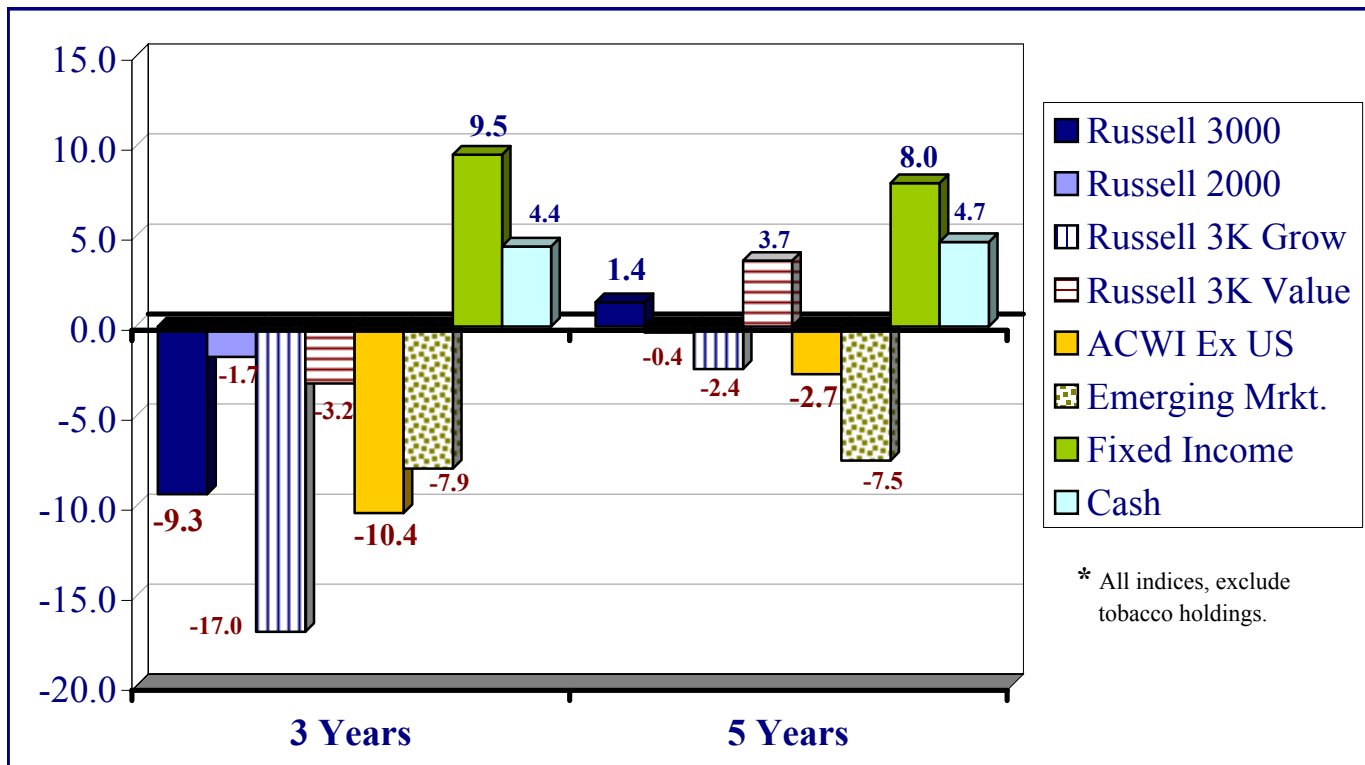


# Review of Long-Term Capital Markets Data

## Russell 3000 since the 1990's



## Capital Market Returns - For the 3 & 5 years ending August 31, 2002





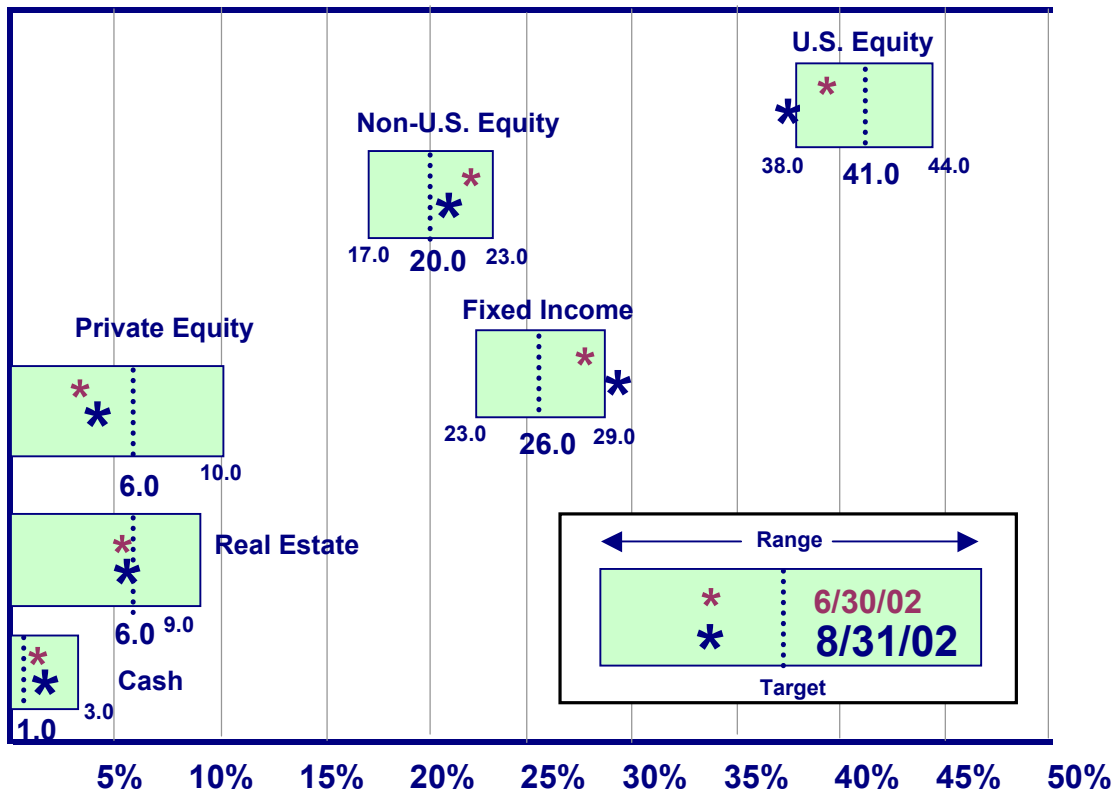
## CalSTRS Retirement Fund Monthly Asset Allocation Report

As of August 31, 2002

	FY '02-'03 TARGETS	ACTUAL August-02	Off Target (000s)
U.S. Equity	41%	37.7%	\$ (3,041,048)
Non-U.S. Eq.	20%	20.7%	\$ 631,617
Fixed Income	26%	29.7%	\$ 3,451,650
Private Equity	6%	4.7%	\$ (1,199,226)
Real Estate	6%	5.5%	\$ (510,105)
Cash	1%	1.7%	\$ 667,112

### Current Allocation

versus Long Term Targets and Policy Ranges



Investment Summary - Market Value (amounts in millions)												
Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago					
Domestic Equity	\$	35,048	37.7%	\$	36,442	36.4%	\$	43,591	44.4%	\$	28,394	37.6%
International Equity		19,212	20.7%		21,820	21.8%		24,570	25.0%		15,243	20.2%
Fixed Income		27,606	29.7%		29,233	29.2%		24,654	25.1%		25,438	33.7%
Global Asset Allocators		N/A	N/A		N/A	N/A		1	0.0%		2,259	3.0%
Real Estate		5,064	5.5%		4,933	4.9%		2,106	2.1%		1,894	2.5%
Alternative Investments		4,375	4.7%		4,641	4.6%		2,812	2.9%		1,462	1.9%
Liquidity		1,596	1.7%		3,088	3.1%		459	0.5%		821	1.1%
Total Market Value	\$	92,901	100.0%	\$	100,157	100.0%	\$	98,193	100.0%	\$	75,511	100.0%

<b>Performance Returns for Major Asset Categories</b>						
Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity	0.47	-7.36	-16.70	-8.88	1.32	9.86
Int'l Equity	-0.18	-9.54	-12.59	-9.33	-1.57	N/A
Fixed Income	2.81	3.74	7.49	9.70	8.29	8.13
Real Estate	N/A	N/A	11.11	11.34	14.89	7.96
Alternative Investments	N/A	N/A	-8.62	11.38	17.15	18.90
Liquidity	0.27	0.51	3.54	5.55	5.74	5.48
<b>Total Fund</b>	<b>0.97</b>	<b>-3.88</b>	<b>-7.22</b>	<b>-2.07</b>	<b>4.02</b>	<b>7.83</b>
<b>Indicies</b>						
Domestic Equity Custom *	0.36	-7.74	-18.41	-9.55	1.19	10.04
MSCI AC ex US *	-0.05	-9.84	-13.29	-10.36	-2.66	4.02
Fixed Income Custom	3.03	4.02	8.23	10.01	8.24	8.06
Real Estate Custom	N/A	N/A	6.34	9.47	11.42	8.08
T-Bill	0.15	0.29	2.12	4.28	4.54	4.55
Consumer Price Index	0.11	0.22	1.59	2.57	2.32	2.50
Russell 3000 *	0.36	-7.74	-17.58	-9.31	1.35	10.09
MSCI EAFE *	-0.29	-10.18	-15.21	-11.12	-2.50	3.88
MSCI Emerging Mkt Free*	1.52	-6.25	2.51	-7.89	-7.45	2.19
Salomon LPF	2.99	4.31	8.54	10.11	8.30	8.09

<b>Allocations of Cash and Reallocations of Assets</b> (does not include changes in the market value)		
	Current Month	Past 12 Months
<b>Cash Inflow:</b>		
Contributions & misc receipts	\$ 152.2	\$ 4,784.7
Less: Benefits & misc. payments	\$ (754.7)	\$ (4,803.6)
Investment Income	\$ 430.3	\$ 3,948.6
<b>Total Cash Inflow</b>	<b>\$ (172.1)</b>	<b>\$ 3,929.7</b>
<b>Cash Allocation:</b>		
Domestic Equity	\$ 136.2	\$ 6,069.3
International Equity	\$ 16.8	\$ 579.8
Fixed Income	\$ (175.8)	\$ (1,931.1)
Real Estate	\$ 48.7	\$ 359.4
Alternative Investments	\$ 60.3	\$ 343.2
Liquidity	\$ (258.3)	\$ (1,490.0)
<b>Total Cash Allocation</b>	<b>\$ (172.1)</b>	<b>\$ 3,929.7</b>

\* Indicies reflect ex Tobacco returns beginning 9/1/2000

<b>Asset Allocation Percentage</b>				
<b>Assets</b>	<b>Actual</b>	<b>Target</b>	<b>Difference</b>	<b>Range</b>
Public Equity	58.4%	61.0%	(2.6%)	56 - 68
Public Fixed Income	31.4%	27.0%	4.4%	23 - 32
Private Equity	10.2%	12.0%	(1.8%)	8 - 14
<b>Total Investment Assets</b>	<b>100.0%</b>	<b>100.0%</b>		
<b>Which can be compared to the strategic targets .....</b>				
Active - Domestic Equity	8.5%	8.2%	0.3%	5-11
Passive - Domestic Equity	29.3%	32.8%	(3.5%)	30-36
<b>TOTAL DOMESTIC EQUITY</b>	<b>37.7%</b>	<b>41.0%</b>	<b>(3.3%)</b>	<b>38 - 44</b>
Active - International Equity	9.3%	10.0%	(0.7%)	7 - 14
Passive -International Equity	11.4%	10.0%	1.4%	7 - 14
<b>TOTAL NON-US EQUITY</b>	<b>20.7%</b>	<b>20.0%</b>	<b>0.7%</b>	<b>18 - 24</b>
<b>TOTAL PUBLIC EQUITY</b>	<b>58.4%</b>	<b>61.0%</b>	<b>(2.6%)</b>	<b>56 - 68</b>
Real Estate	5.5%	6.0%	(0.5%)	
Alternative Investments	4.7%	6.0%	(1.3%)	
<b>TOTAL PRIVATE EQUITY</b>	<b>10.2%</b>	<b>12.0%</b>	<b>(1.8%)</b>	<b>8 - 14</b>
Domestic Fixed Income	29.7%	26.0%	3.7%	23 - 29
Liquidity	1.7%	1.0%	0.7%	0 - 3
<b>TOTAL FIXED &amp; LIQUIDITY</b>	<b>31.4%</b>	<b>27.0%</b>	<b>4.4%</b>	<b>23 - 32</b>
<b>TOTAL INVESTMENT ASSETS</b>	<b>100.0%</b>	<b>100.0%</b>		

UNAUDITED

PLEASE NOTE:

POSTED TC15 (ACTIVE EQUITY) NOTIONAL VALUE OF APPROXIMATELY \$482,911K  
REDUCING TC00 CASH BY SAME



**Currency Hedging - Market Value (amounts in millions)**

Managers	Pacific Basin		European		Total	
Active International	\$ 2,465.40	0.4%	\$ 5,492.71	0.0%	\$7,958.11	0.1%
Passive International	\$ 2,747.28	18.6%	\$ 6,486.61	0.0%	\$9,233.89	5.5%

\* Does not include emerging market securities, Canadian stocks, cash or accruals.

**Currency Realized Gains/(Losses) (amounts in millions)**

Managers	Currency Realized Gains/(Losses)		
	1 Month	1 Year	Since Inception
Active International	(\$2.83)	(\$0.80)	\$97.37
Passive International	(\$6.63)	\$16.34	\$613.18

**Securities Lending Income**

Asset	Current Fiscal Year 07/02-8/02	vs.	Prior Fiscal Year 07/01-08/01
Domestic Equity	\$1,572,222		\$2,573,983
International Equity	\$3,681,331		\$4,871,285
US Treasury	\$4,705,757		\$5,590,934
Other Fixed Income Securities	\$520,220		\$296,378
Total Income	<u>\$10,479,530</u>		<u>\$13,332,580</u>

**Securities Lending (On-Loan/Collateral Summary)**

Asset	Securities On-Loan	Collateral Valuation	Percent
Domestic Equity	\$1,421,237,930	\$1,505,026,252	106%
International Equity	\$3,062,787,203	\$3,228,071,949	105%
US Treasury	\$7,471,582,165	\$7,652,653,601	102%
Other Fixed Income Securities	\$967,729,887	\$990,981,434	102%
Total Value	<u>\$12,923,337,185</u>	<u>\$13,376,733,236</u>	104%

# California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 14

## Monthly Investment Summary

Page 1 of 2

	Market Value		Market Value		Market Value	
	7/31/02	Market %	8/31/02	Market %	Difference	% Diff.
<b><i>Liquidity</i></b>						
CalSTRS - Cash Allocation	1,748,218,296		1,489,035,814		(259,182,482)	
CalSTRS - US Cash Equitization	106,291,821		107,083,357		791,536	
<b>Total Liquidity</b>	<b>1,854,510,116</b>	<b>2.00%</b>	<b>1,596,119,171</b>	<b>1.72%</b>	<b>(258,390,946)</b>	<b>(0.28%)</b>
<b><i>Domestic Equity</i></b>						
<b>Active</b>						
Ariel Capital	487,548,760		508,725,168		21,176,407	
BGI - Enhanced	625,825,316		630,139,367		4,314,051	
Brown Capital Management	272,711,083		277,732,645		5,021,562	
Chicago Equity Partners	409,532,989		519,399,433		109,866,443	
Delaware Investment Adv	411,408,282		412,162,739		754,457	
Delphi Management, Inc	213,909,842		231,350,690		17,440,848	
Denver Investment Advisors	509,132,875		519,558,896		10,426,020	
DSI International Management	530,851,232		533,190,552		2,339,320	
First Quadrant	513,640,596		623,946,135		110,305,539	
Mellon Capital Management	437,288,137		441,528,891		4,240,754	
NCM Capital Management	334,355,046		336,058,550		1,703,504	
Putnam Investments	242,009,203		243,992,827		1,983,624	
Sasco Capital	736,822,464		750,481,600		13,659,136	
SSgA - Enhanced	672,335,086		676,071,358		3,736,272	
TCW Asset Manangement Co	167,300,700		164,421,156		(2,879,544)	
UBS Brinson - USEQ	528,506,946		538,881,191		10,374,245	
<b>Passive</b>						
BGI Extended Market Index	157,162		2,399		(154,764)	
BGI R1000	12,637,025,798		12,688,899,603		51,873,805	
BGI R2000	900,669,138		897,506,774		(3,162,365)	
BGI S&P 500 Index	394,371		191		(394,180)	
CalSTRS - S&P 500 Index	394,294		188		(394,106)	
CalSTRS R1000	12,642,504,064		12,694,506,271		52,002,207	
SSgA - Extended Mkt Index	156,319		649		(155,671)	
SSgA R2000	902,371,169		899,432,030		(2,939,139)	
<b>Transition</b>						
CalSTRS - Domestic	713,632,458		460,261,002		(253,371,456)	
<b>Total Domestic Equity</b>	<b>34,890,483,332</b>	<b>37.68%</b>	<b>35,048,250,303</b>	<b>37.73%</b>	<b>157,766,971</b>	<b>0.05%</b>
<b><i>International Equity</i></b>						
<b>Active</b>						
Bank of Ireland Asset Management	716,762,431		711,443,329		(5,319,102)	
Battery March Financial Mgmt Inc	548,973,406		544,591,336		(4,382,070)	
Blackrock, Inc.	230,164,809		227,659,060		(2,505,749)	
Capital Guardian Trust	1,020,173,410		1,005,950,609		(14,222,801)	
Delaware Int'l Advisors Inc.	438,210,207		445,903,157		7,692,950	
Fidelity Management Co.	402,552,692		400,625,055		(1,927,637)	
Fiduciary Trust	532,524,533		531,086,825		(1,437,708)	
Goldman Sachs Asset Mgmt	299,689,458		298,594,729		(1,094,729)	
Lazard Freres	730,986,069		740,426,945		9,440,876	
Marvin & Palmer Assoc, Inc.	337,657,680		334,587,442		(3,070,239)	

# California State Teachers' Retirement System

Attachment 4

Investment Committee - Item 14

## Monthly Investment Summary

Page 2 of 2

	Market Value		Market Value		Market Value	
	7/31/02	Market %	8/31/02	Market %	Difference	% Diff.
Morgan Stanley	777,992,718		774,117,515		(3,875,203)	
Newport Pacific Mgmt	211,682,501		209,262,674		(2,419,827)	
Nicholas-Applegate Capital Mgmt	362,047,637		357,966,501		(4,081,136)	
Oechsle International	917,709,954		918,552,503		842,549	
Schroder Capital	468,180,622		465,364,512		(2,816,110)	
Scudder Kemper Investments	285,638		37,729		(247,909)	
UBS Brinson - Non-USEQ	696,843,212		697,508,740		665,529	
<b>Passive</b>						
BGI - EAFE Index	5,580,054,818		5,561,717,417		(18,337,401)	
SSgA - EAFE Index	3,688,256,155		3,675,649,143		(12,607,012)	
SSgA - Emerging Market Index	1,283,933,629		1,310,716,702		26,783,072	
<b>Total International Equity</b>	<b>19,244,681,581</b>	<b>20.78%</b>	<b>19,211,761,926</b>	<b>20.68%</b>	<b>(32,919,655)</b>	<b>(0.10%)</b>
<b>Fixed Income</b>						
CalSTRS - Corporate Bond Index	9,020,544,590		9,275,105,562		254,560,972	
CalSTRS - Mortgage Bkd Security	8,398,701,983		8,424,006,698		25,304,716	
CalSTRS - Mortgage Loan	807,031,814		727,380,959		(79,650,855)	
CalSTRS - US Treasury & Agency	8,251,078,342		8,402,571,446		151,493,104	
Hartford Investment Mgmt	269,111,312		276,943,528		7,832,216	
MW Post Advisory Group	194,242,821		196,792,860		2,550,039	
Seix Investment Advisors	300,230,770		303,037,874		2,807,105	
<b>Total Fixed Income</b>	<b>27,240,941,631</b>	<b>29.42%</b>	<b>27,605,838,927</b>	<b>29.72%</b>	<b>364,897,296</b>	<b>0.30%</b>
<b>Real Estate</b>						
CB Richard Ellis	1,481,038,645		1,480,942,359		(96,286)	
Clarion Partners, LLC	409,530,133		410,982,345		1,452,212	
Heitman Capital Management	372,648,099		372,103,762		(544,337)	
Lend Lease	1,039,407,643		1,036,881,068		(2,526,576)	
Lowe Enterprises Inv Mgmt	152,957,474		152,067,749		(889,724)	
MIG Realty Advisors	333,932,719		333,556,624		(376,095)	
Sentinel Realty Advisors	40,299,086		40,265,456		(33,630)	
Special Situations	465,231,796		483,783,086		18,551,290	
SSR Realty Advisors	504,685,263		504,836,017		150,754	
Thomas Properties Group	250,243,353		248,520,416		(1,722,938)	
<b>Total Real Estate</b>	<b>5,049,974,212</b>	<b>5.45%</b>	<b>5,063,938,882</b>	<b>5.45%</b>	<b>13,964,670</b>	<b>0.00%</b>
<b>Alternative Investments</b>						
CalSTRS - Distributed Stock	815,065		2,448,090		1,633,025	
Limited Partnerships	4,317,635,586		4,372,369,906		54,734,321	
<b>Total Alternative Investments</b>	<b>4,318,450,651</b>	<b>4.66%</b>	<b>4,374,817,997</b>	<b>4.71%</b>	<b>56,367,346</b>	<b>0.05%</b>
<b>Grand Total</b>	<b>92,599,041,524</b>	<b>100.00%</b>	<b>92,900,727,206</b>	<b>100.00%</b>	<b>301,685,682</b>	

### PLEASE NOTE:

All Figures Include Accruals

The Information contained in this report is UNAUDITED

The Internally Managed Cash Collateral Portfolio is NOT included above.

The Net Asset Value as of 8/31/2002 is \$5,436,871,120

**California State Teachers' Retirement System**  
**Internal Russell 1000 ex-Tobacco Indexed Portfolio**

The California State Teachers' Retirement System's internal Russell 1000 ex-Tobacco Indexed Portfolio (Portfolio) was \$12,694,506,271 as of August 31, 2002. The Portfolio seeks to closely track the return of the custom Russell 1000 ex-Tobacco Index<sup>2</sup>.

Table 1 below shows the returns of the Portfolio<sup>1</sup>.

**Table 1: Performance as of August 31, 2002**

<b>Period</b>	<b>Portfolio Total Return</b>	<b>Index Total Return</b>	<b>Tracking Error</b>
2002, Jul-Aug	-6.971%	-7.152%	+0.181%

<sup>1</sup> Inception date of Portfolio was March 31, 1998

<sup>2</sup> Effective July 1, 2002, the benchmark for Portfolio is the custom Russell 1000 ex-Tobacco Index